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**Latvia**

**HRI Food Service Sector**

**Report**

**2002**

Approved by:

**Lana Bennett, Agricultural Counselor**

**U.S. Embassy, Stockholm**

Prepared by:

**Jolanta Andersone, Marketing Specialist**

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**Report Highlights:**

**The Latvian HRI sector is relatively small but has good prospects for development. The recent boom in openings of fast food and self-service outlets and restaurants with international cuisines has changed the structure of the food service market. Major current constraints to exports of U.S. food products include tariff and shipping cost disadvantages vis-a-vis European competitors.**

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## SECTION I. MARKET SUMMARY

In 2001, Latvia's GDP grew by 7.7 percent, which was the greatest growth among countries in the Baltic region. However, the per capita GDP of US\$ 3,210 was still several times lower than the average for EU countries. Stringent monetary policy fostered low inflation and provided for macroeconomic stability.

The hotel/restaurant trade has rapidly developed in Latvia over the past five years, accounting for a 1.2% share of the GDP in 2000. **Fast food restaurants and international cuisines have gained acceptance among Latvian consumers** and essentially changed the profile of the restaurant business. The younger population is the engine behind the successful introduction of the new ethnic cuisines. **Tourism is the key market driver for the whole hotel-restaurant sector. In 2001, about 2.1 million tourists visited Latvia.**

Food catering has increased by 60 percent over the last 5 years, and sales amounted to US\$177 million in 2000 (incl. alcoholic beverages and tobacco). Imported foods accounted for about 25 percent of total food service turnover in 2000, up from 10 percent in 1994. Domestic production capabilities meet the majority of demand for basic food products while imported foods add to the variety.

Table: Sales by type of food catering establishment, US\$ Mil

	1996	1997	1998	1999	2000
Total sales of food catering establishments	111	114	135	163	177
Hotels and resorts	5.7	7.7	8.5	8.5	8.2
Restaurants and bars	83.6	85.6	104	132	146
Institutional catering	21	20.5	22.3	22.6	22.8

## SECTOR STRENGTHS AND MARKET OPPORTUNITIES

Advantages	Challenges
The general image of U.S. products is positive. They are considered to be safe and of good quality. Businesses are receptive to U.S. companies.	U.S. products face tough competition domestic producers and increasing imports from European countries and Baltic FTA neighbours
The growing HRI sector is looking for quality processed food imports.	Latvia alone is a small target market for US products.
Purchasing power of the population on the rise. Consumers demand greater diversity and convenience of catering.	U.S. exports face MFN duty rates compared to preferential tariffs and zero rates for exports from the EU and FTA partners.

### Customer Profile

In 2001, there were 2.35 million inhabitants in Latvia, a decline by almost 8 percent since 1990, due to negative birth rates and emigration. The majority of the population is concentrated in the large cities. Consumer preferences differ significantly among various income, age and ethnic groups. Preferences for fast food restaurants, international and oriental cuisines and out-of-home dining are strong among the younger population, but a significant number of consumers remain at "the tasting level." In general, consumer demand remains very price sensitive, but there is an increasing number of western-oriented customers and tourists who prefer to eat at modern restaurants with an extensive menu. A growing numbers of office employees eat their lunch at self service restaurants and fast-food establishments. Some food service companies offer catering and prepared ready-to-eat meals delivered directly to the offices.

Consumer prices rose 2.5 percent in 2001, and purchasing power increased by 4.2 percent over the previous year's level, allowing for further consumption growth. Income increases are skewed, however, with benefits going mainly to the urban/suburban populace. In 2001, the official unemployment rate dropped to 7.7 percent of the total labor force. In 2001, the average monthly income per household member was US\$ 110, up by 7 percent from 2000, but still very low. On average, 37 percent of the Latvians expenditure is on food. Estimates show that eating out accounts for 13 percent of their total food dollar.

Of the 1.1 million people employed, women account for 43 percent. This contributes to the increased demand for meals consumed away from home. However, of the 2.35 million population, 21 percent is retired and average pensions are too low to allow much variety in food purchases. Nearly 30 percent of the population lives in rural areas. In many rural households, home made meals are preferred and farming provides staples, mainly due to limited incomes.

## SECTION II. ROAD MAP FOR MARKET ENTRY

### A. ENTRY STRATEGY

The HRI industry in Latvia is relatively small. **A centralized supply system for hotels and restaurants does not exist despite efforts made by the Hotel and Restaurant Association to create one.** The strategy for U.S. exporters targeting the HRI sector would be to connect with importers/wholesalers and offer products to companies that are **serving the sector.** Market entry strategies for U.S. food products should include:

- 1) Market research in order to assess product opportunities.
- 2) Advance calculation of the landed cost of a product in order to make price comparisons vis-a-vis competitors.
- 3) Locating an experienced distributor or independent reliable agent with strategic distribution channels, to advise on import duties, sanitary regulations, and labeling requirements. It is advisable to initiate personal contact in order to discuss marketing matters such as funding for advertising, slotting allowance, in-store promotions and tasting events. Suppliers may also want to consider trade fair participation to raise awareness of the offered product.

U.S. products traditionally have low consumer awareness in Latvia. Several constraints have contributed

to the small market presence of U.S. foods:

- Trade terms for U.S. companies tend to require advance payment of up to two months.
- An aversion to the assumption of exchange rate risks.
- Minimum quantities offered have often been too large for the small Latvian market.
- A perception that persists among Latvian importers that landed costs of U.S. products will be higher compared to European products due to higher transportation costs.
- A perception that U.S. exporters are simply too far away to service the Latvian market.
- Latvian importers and buyers have not been exposed enough to U.S. processed food products.

## B. MARKET STRUCTURE, DISTRIBUTION

Catering enterprises source products from Latvian wholesalers and food processors. **It may be advisable to explore the needs of a specific restaurant or fast food chain, since imported food volume for the catering sector is quite small.** When available locally, fruits and vegetables are sourced directly from farmers. Some wholesalers have cash and carry type wholesale operations, while others combine wholesale with HRI sector supplies. No wholesaler undertakes nation-wide distribution or carries a complete range of products. A number of smaller importers have specialized by specific type of product. One distributor/logistics company supplies locally produced and imported products according to pre-assigned orders or agreements. Fish, seafood, fruits and vegetables, wines, beverages, frozen foods are supplied in general by specialized agents. Most all major restaurants and hotels are supplied by a company called Reaton, which offers brand products and specialty foods. Given the relatively small consumer base in the three Baltic countries (which have the combined population of about 8 million), pan-Baltic wholesalers with centralized distribution schemes are likely to emerge. This will help to achieve the economies of scale needed to make U.S. food imports viable.

## C. SUB-SECTOR PROFILES

### **1. RESTAURANTS**

In 2000, sales by restaurants and bars accounted for 82 percent of the food service market, totaling US\$146 million. Restaurants and bars sales have increased by 75 percent over the past five years, and further growth is expected. **Restaurants mostly cater to high/middle income groups, a growing expatriate community, and the increasing numbers of tourists and visiting businessmen.** Currently, only a few restaurant chains are present.

Fast food outlets and restaurants featuring international cuisines have changed the profile of the food service market and have gained popularity among the Latvians. The younger population and tourists are the engines behind the success of ethnic cuisines. The majority of the consumers, however, remain at the "tasting level."

The number of restaurants, canteens and cafes in Latvia totaled 4,065 in 2000. About 500 outlets opened in 2000, adding to the already fierce competition in the family restaurant and café segment, especially in the downtown area of Riga.

Basic products, such as meat, fish, dairy and bakery products are largely sourced from domestic suppliers. Imported products must be competitively priced, of high and consistent quality, and logistics is more reliable. Imported products dominate in fish and seafood, fats and oils, frozen products, wines and alcoholic beverages, soft drinks, and fresh fruits. In the summer and the fall, domestic fruits and vegetables are preferred. Imported fruits and vegetables are required during the winter, since domestic storing facilities cannot guarantee consistent product quality. Best prospects for an increased presence of U.S. food products in this sector include rice, wines, white meat, snacks, spices and dried fruits and nuts.

Table: Profiles of largest restaurants

Company Name	Sales 2000, US\$Mil	Outlet Name, Type & Number of Outlets	Location	Purchasing Agent Type
Lido	3.1	Lido, 8 restaurants	Riga	domestic processors own processing line and wholesalers
Skonto	1.3	Restaurant	Riga	domestic processors and wholesalers
Divi lasi	0.9	Restaurant	Riga	domestic processors and wholesalers
Zilais putns	0.6	Restaurant	Riga	domestic processors and wholesalers
Vincents	0.8	Restaurant	Riga	domestic processors and wholesalers
Anspeteri	0.7	6 Restaurants	Riga	domestic processors and wholesalers

### Fine dining

A la carte and gourmet restaurants are popular among expatriates and tourists, as well as citizens with higher incomes. Among these upscale establishments are: *Skonto Zivju Restorans*, *Pyramid* at Park Hotel Ridzene, *Otto Schwarz* at Hotel De Riga, *Paleta*, *Black Monks*, *Vincents*, *Columbine*, *Diplomat* and *Charlestons*.

### International cuisines

Various restaurants featuring ethnic cuisines have opened in the Latvian food market over the past decade. One can enjoy Chinese/Asian meals (*Casablanka*, *Hanoja*, *Orients*, *Saigon*, *Shanghai*, *Soraksans*), Indian (*Bollywood Chutney*, *Sue's Indian Raja*), Italian (*Da Sergio*, *Giuditta*, *Mamma Mia*, *Talavera*), Japanese (*Sumo*, *Sumosan*), Jewish (*Shalom*), Russian (*Slavic*, *Traktier*, *Pelmeni XL*), Thai (*Sue Ka Thai*), Caucasian (*Aragats*), and American (*Ai Karamba*).

### Self-service

A family-style menu is offered at *Lido*, a Latvian-owned self-service restaurant chain of eight outlets of different sizes. *Lido* targets customers who prefer traditional Latvian food. These restaurants use mainly domestic products and they import only about 10 percent of their raw material, mainly frozen fish and seafood. *Lido* also owns meat and fish processing lines that prepare ready-made-meals for its own catering establishments and some retail outlets, including a few stores which are owned by *Lido*. *Lido*'s total business turnover was slightly over US\$ 19.8 million in 2000. This was a result of successful expansion and growing popularity over a 6-7 year period. Several self-sevice vegetarian restaurants, *Kirbis Vegetarian Buffett* and *Rama* offer an array of vegetarian dishes, and a wide variety of cheeses and breads.

Table: Fast Food and Self-Service Restaurants

Company Name	Sales 2000, US\$Mil	Outlet Name, Type & Number of Outlets	Location	Purchasing Agent Type
Mc Donalds	5.2	6 outlets	Riga	Agent "Baltic Distribution", Ltd
LKCS Turiba	4.4	24 outlets	Nationwide	Direct supplies from domestic processors, and wholesalers
Later Ltd, fast food/delivery service	2	Lulu Pica, 4 outlets	Riga	Direct supplies from domestic processors, and wholesalers
Lolo	0.2	Lolo Pizzeria	Riga	Direct supplies from domestic processors, and wholesalers
Manhattan Pizza	0.1	Home/Office delivery	Riga	Direct supplies from domestic processors, and wholesalers

### Fast Food

In 1995, *McDonalds* opened its first restaurant in the middle of old town Riga. Currently, there are six outlets located along the major highways in the outskirts of Riga. *McDonalds* plans to open five more outlets within the next two years. *McDonalds'* Latvian outlets offer only a basic menu. Ice-cream, tomatoes and cucumbers are supplied by Latvian. All pre-processed meat products are imported (currently from Poland,) since domestic processors cannot supply the products of the required quality. Other fast food restaurants offer pizza, hamburgers, hot dogs, croissants, buns, and pancakes. Among popular entries are *Pizza Jazz* (Lithuania), *Sir Pizza* (American), *American Fried Chicken* (joint venture with U.S. investment), *Wilhelm's Pancakes*, and *Mother-in Law's Buns*. The most recent player on the Latvian fast food market is the largest Lithuanian pizza chain, *Cili Pizza*, with its first outlet in the Latvian port city Liepaja.

### Delivery service

Only a few companies offer home/office deliveries, since there is not yet a significant demand for this service. The delivery sales by *Lido* are on the rise as well as sales of their menu entries. *Pica Lulu* is the leader in pizza delivery in Riga. *Pica Lulu* accepts orders online and delivers within the Riga city limits. *Jautrais Maiznieks* and *Ai Karamba* offer delivery service.

## 2. HOTELS AND RESORTS

The Latvian hotel business has expanded rapidly over the past 3 years. As of mid 2001, the Hotel Restaurant Association had issued certificates of conformity to their standards to 77 hotels, 36 guest houses, 9 resorts and 4 motels. The majority of the larger hotels are located in Riga, the capital. These hotels feature mainly European or ethnic Latvian cuisine. Among the top hotels are Radisson, Eurolink, Riga, Park Hotel Ridzene, Metropole, De Rome, Man-Tess, Amrita, Ainavas, and Guttenberg. Only a few hotels belong to international chains; Latvia Hotel, a tourist class hotel which opened in the summer of 2001, is a part of the Reval Hotelligroup AS network in the Baltics, owned by Linstow International AS (Norway). Other chain hotels are Maritim Park Hotel, owned by the German Maritim hotel chain, Grand Palace of Consul Hotels Group, and Radisson/SAS/Daugava Hotel. The average hotel occupancy rate ranges from 55-60 percent. The imported share of the hotels' food purchase was estimated to be approximately 15 percent in 2000, down from 20 percent in the late nineties. Reaton Ltd., a Latvian HRI wholesaler, supplies the major hotels with almost all basic food preparations, branded, and specialty food products. Locally grown products are sourced from wholesalers and directly from processors. Meat and dairy products are sourced from the large processors such as Rigas Miesnieks and Rigas Piena Kombinats. Fish products are supplied by domestic fisheries, and imported fish and seafood is sourced through agent companies and importers of frozen foods. In season, fresh vegetables and produce are usually sourced directly from farmers. Wines are sourced from local importers/agents. A centralized supply system for hotels and restaurants does not exist.

Table: Hotel catering profiles



Company Name	Food Sales 2000, US\$Mil	Number of outlets	Location	Purchasing Agent Type
Radisson/SAS/Daugava Hotel	1.8	3 restaurants, bar	Riga	Wholesalers
Hotel De Rome	1.3	2 restaurants, bar	Riga	Wholesalers
Riga	1	3 restaurants, bar	Riga	Wholesalers
Metropole	0.8	Restaurant	Riga	Wholesalers
Konventa Seta	0.5	Restaurant	Riga	Wholesalers
Mann-Tess	0.3	Restaurant	Riga	Wholesalers
Ridzene	0.2	Restaurant	Riga	Wholesalers
Amrita	0.2	Restaurant	Liepaja	Wholesalers
Latvia Reval Hotel (under reconstruction until mid 2001)	N/A	3 restaurants, 2 bars	Riga	N/A

Hotel restaurants offer a variety of entries. With the fast development of the restaurant sector, the top hotels have down-sized menus in order to rationalize supplies and keep prices reasonable. Special menu "fortnights" are organized at leading hotels to familiarize local customer with international cuisines. For such events, a chef from the featured country may be brought in to develop a new a la carte menu during the promotion period. Several tourist class hotels feature business lunches at moderate prices to attract customers among office workers.

### 3. Institutional Catering Establishments

The institutional catering establishment sector is the smallest of the three sub-sectors, accounting for 13 percent of total HRI sales. There are no specialized suppliers to this sub-sector. Direct purchases from local food processors and wholesalers are most common. In general, independent catering companies service the institutional establishments, and contract food suppliers on an annual basis after the institutions' budgets have been allocated by the relevant ministries. Catering costs at schools and day care centers are shared between the parents and the local municipalities. Few schools still have catering personnel as part of their staff.

About 90 percent of food supplies to this sector are of domestic origin. Imports include edible oils, margarine, pasta, preparations of fruits and vegetables, some sauces, and occasionally fresh fruits. Food consumption in this sub sector is stable, and no considerable future growth is predicted. We do not

recommend that U.S. companies develop a marketing strategy specifically for this sub-sector.

### **SECTION III. COMPETITION**

Challenges for U.S. exporters in entering the Latvian market include tariff disadvantages. Due to preferential tariff duties and increased TRQs for agricultural and food products provided by Latvia's July, 2000 and July 2002 agreements with the European Union, duties for EU imports are gradually declining vis-a-vis the MFN rates applied to imports from the U.S.. Under free trade agreements (FTAs) signed with the neighboring Baltic countries, and EFTA and CEFTA countries, products from these FTA partners are at an advantage over imports from the United States. As much as 84 percent of Latvian agricultural export and 80 percent of the Latvian import trade occurs with EU countries and countries with which Latvia has entered FTAs.

In addition, Latvia has been modifying its sanitary and phytosanitary standards in conjunction with its preparations for EU accession. Some of these changes have blocked once-existing U.S. trade, especially of pork and beef. Latvian consumers are generally unfamiliar with U.S. products since U.S. exporters of most product types have paid little attention to this region of the world.

During the past seven years, Latvia's agricultural trade balance has run a deficit. In 2000, Latvian imports of consumer-oriented agricultural products totaled US\$ 278 million, while the value of exports totaled a much lower US\$ 108 million (not including wood products). The EU leads in exports to Latvia, (47 percent), followed by its Baltic neighbors - Estonia and Lithuania (25 percent), and Central European countries (12 percent). The U.S. share in Latvian agricultural trade was 2.7 percent, reflecting both the inability of U.S. products to compete effectively with other suppliers and lack of U.S. supplier interest.

Of total U.S. agricultural product exports to Latvia in 2000, poultry products accounted for 30 percent, coffee extracts and essences for 12 percent, frozen fish for 12 percent, tobacco products for 7 percent and dried fruits and nuts for 7 percent. Other major products included rice 4.5 percent, alcoholic beverages 3.2 percent, fats and oils 3 percent, pet food 2.3 percent, and wines 2.1 percent. U.S. suppliers dominated Latvian imports of poultry products (55 percent), almonds (38 percent), corn (35 percent), dried fruits (32 percent), rice (12 percent), and instant coffee (10 percent). For most products, domestic production meets between 70-90 percent of the demand, and imports are viewed as adding to the variety of foods.

### **SECTION IV. BEST HIGH VALUE PRODUCT PROSPECTS**

There are opportunities for dry, chilled and frozen processed products. Rather unfamiliar to consumers are low fat, low salt, sugar free, and cholesterol free products. We recommend: candies, marshmallows, snack foods, pasta preparations, muffins, baking chocolate/chips, barbeque foods/sauces, fresh fruits, vegetables, fish, seafood, and wine. There is a demand for quality meat, seafood, fruits and vegetables and various snacks. The popularity of Mexican/U.S. and Italian restaurants may lead to increased interest in imports of tortillas, tacos, chili, jalapenos, enchiladas, burritos, nachos.

### **SECTION V. KEY CONTACTS AND FURTHER INFORMATION**

Latvian Hotels and Restaurants Association  
Caka 55 - 523  
LV1011  
Tel: +371 7014131  
Fax: +371 7014132  
www.allhotel.lv

Latser, Product Conformity Assessment Center (PCAC)  
Unijas Street 45/47, 3 rd Floor  
Riga LV 1039  
Latvia  
Tel: +371 7533033  
Fax: +371 7533050  
latser@latnet.lv

Latvian Traders Association  
Gertrudes Street 36,  
Riga LV1011  
Latvia  
Tel: +371 7217372  
Fax: +371 7821010  
www.lta.lv

Latvian State Veterinary Service  
Republic Sq 2  
Riga  
LV 1981  
Tel: +371 7095230  
Fax: +371 7322727  
Email: vvd@vvd.vita.gov.lv

Latvian Food Center  
Valdemara Street 38  
Riga LV1013  
Tel: +371 7021575, 371 7027 713  
Fax: +371 7021 755  
Email: orlova@lpc.gov.lv

To include your products in a regional Baltic "virtual trade fair", please visit  
<http://baltic.trade-fair.com>

The business center of the Latvian Development Agency has established a website <http://lda.gov.lv/eksports/bizness> to help matching of trade interests. Your cooperation and investment proposals can be sent to [invest@lda.gov.lv](mailto:invest@lda.gov.lv) , or to fax: +371 782 0458.

For general questions about product import into Latvia, please contact:

Foreign Agricultural Service, USDA  
American Embassy  
Raina Blvd. 7  
Riga LV1510  
Latvia  
Tel: +371 7036212, 371 7036200  
Fax: +371 7227390, 371 7820047  
E mail: agriga@apollo.lv

For more information on exporting U.S. agricultural products to other countries in the Nordic/Baltic region, please visit the Foreign Agricultural Service home page: [www.fas.usda.gov](http://www.fas.usda.gov) and the FAS/Stockholm regional headquarters office at [www.usemb.se/Agriculture](http://www.usemb.se/Agriculture)